



1954

ANNUAL REPORT

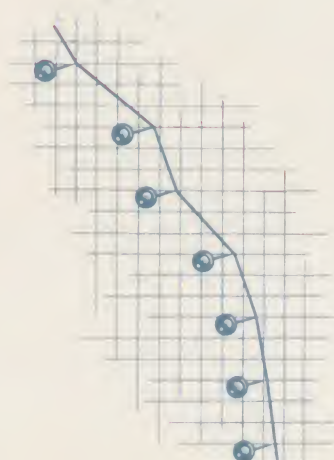
*for the fiscal year
ended May 1, 1954*

FOOD FAIR STORES, INC.

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BUSINESS DEPT.
CORPORATION FILE

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The cover design of the 1954 annual report depicts the recent growth of the Food Fair chain. In the six years since 1948 (first pin) when the company operated 105 supermarkets, until today, when 200 are being operated, Food Fair Stores, Incorporated has just about doubled in size.

1948.....	105 stores	1951.....	123 stores
1949.....	108 stores	1952.....	151 stores
1950.....	113 stores	1953.....	162 stores

As of July, 1954.....200 stores



1954 ANNUAL REPORT, FOOD FAIR STORES, INC.

OFFICERS

Samuel Friedland..... *Chairman of the Board*
 George Friedland..... *Vice Chairman of the Board*
 Louis Stein..... *President*
 Myer B. Marcus..... *Executive Vice President*
 Arthur Rosenberg..... *Vice President*
 Herman R. Silver..... *Vice President*
 Jack M. Friedland..... *Vice President*
 David T. Friedland..... *Vice President*
 Arnold D. Cohen..... *Vice President*
 Myer M. Gordon..... *Treasurer*
 B. F. Lieber..... *Secretary*
 Joseph Rash..... *Assistant Secretary*
 Samuel Forman..... *Assistant Secretary*
 Abraham Maloff..... *Assistant Secretary*

DIRECTORS

George Friedland..... Philadelphia, Pa.
 Jack M. Friedland..... Philadelphia, Pa.
 Samuel Friedland..... Miami Beach, Fla.
 Myer M. Gordon..... Philadelphia, Pa.
 Hess Kline..... Philadelphia, Pa.
 James P. Magill..... Philadelphia, Pa.
 Myer B. Marcus..... Philadelphia, Pa.
 Arthur Rosenberg..... Philadelphia, Pa.
 Harold W. Scott..... Philadelphia, Pa.
 Herman R. Silver..... Philadelphia, Pa.
 Louis Stein..... Philadelphia, Pa.

EXECUTIVE OFFICES

2223 East Allegheny Avenue, Philadelphia 34, Pennsylvania

Transfer Agent

Registrar & Transfer Company
 50 Church Street, New York, N. Y.
 15 Exchange Place, Jersey City, N. J.

General Counsel

Stein, Stein & Engle
 26 Journal Square
 Jersey City, N. J.

Registrar

The Chase National Bank
 of the City of N. Y.
 11 Broad Street, New York, N. Y.

The \$4.20 preferred stock and the common stock are fully listed on the New York Stock Exchange

THE YEAR AT A GLANCE

"In sales, Food Fair is consistently showing its heels to all competitors among the retail chains. Its long-term record shows sales in the 1953 fiscal year more than 13 times the 1939 figure. And its gain of nearly 20% for 1953 over 1952 set the pace among the 20 biggest U.S. retailers."—Business Week—May 29, 1954

	FISCAL	
	1954	1953
Sales.....	\$348,215,041	\$292,659,754
Net income.....	\$5,801,106	\$4,535,918
Net income per dollar of sales.....	1.67%	1.55%
Net income per share of common stock....	\$2.31	\$1.77
Dividends Paid		
Preferred stock—Cash.....	\$305,329	\$325,106
Common stock } Cash.....	\$1,877,722	\$1,792,675
} Stock.....	\$2,715,705	\$1,315,506
Per share of common stock (cash).....	\$.80	\$.80
Per share of common stock (stock).....	5%	3%
Earnings retained in the business.....	\$3,618,055	\$2,418,137
Current assets.....	\$39,651,946	\$37,518,200
Current liabilities.....	\$14,438,039	\$12,226,354
Working capital.....	\$25,213,907	\$25,291,846
Number of supermarkets.....	196	162



PRESIDENT'S MESSAGE

To the Shareholders

In July, 1954, Food Fair Stores, Inc., attained still another significant milestone. At that time was dedicated the two hundredth Food Fair supermarket. Only about six years earlier, on June 30, 1948, the one hundredth link in the chain had been completed, in Atlantic City, N. J.

It is significant that just about twenty years have passed since doors swung open on Food Fair's first supermarket, in Harrisburg, Pa. Measured by the standards of today's bright, clean, wide-aisled Food Fair markets, that original store was unspectacular. But it launched an era. From the 1933 pioneering venture which at year's end totaled two markets, which employed 250 persons and accounted for \$2,292,715 of sales, has grown the Food Fair chain of today, comprising 200 markets, employing 12,000 men and women, and doing business at an annual rate exceeding \$400,000,000.

Food Fair's growth over the past two decades is unprecedented in the retail food field, or in the entire retail trade for that matter. In the fiscal year ended May 1, 1954, detailed financial statements for which are contained in this report, the Company's growth continued. New records were established in every phase of the business.

Sales for the year amounted to \$348,215,041 which is roughly twenty times the sales volume of fifteen years before. Net income after all charges and taxes was \$5,801,106, which is \$2.31 per share of common stock, after allowing for preferred dividend requirements, or 28% in excess of the preceding year's.

Thus far in the new fiscal year, Food Fair's progress has continued unslackened. Encouraging sales gains are being registered. Earnings experience has improved, also.

In the short span of years in which it has expanded from a single market to a high position among the world's largest retail systems, the Food Fair organization has been guided by management philosophy now thoroughly tested and proved.

It has been Food Fair's basic aim to meet and shoulder its full share of responsibilities to customers, to employees, to communities served and to stockholders.

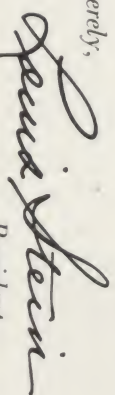
No effort is spared in providing maximum value, highest quality, fairest-priced merchandise for the consumer, together with courteous service in the most pleasant, comfortable and convenient surroundings.

By the same token, each man and woman on the Food Fair team is recognized as possessing distinct talents, desires and problems. Security and good working conditions are of paramount importance.

Equally important is Food Fair's responsibility to the community of which it is a part. This responsibility can be fulfilled only by a good neighbor contributing to civic betterment and to the general well-being. Finally, Food Fair shareholders are entitled to a fair current return on their investment plus participation in growth of the organization.

The merit of this management philosophy may be measured in the phenomenal progress which the Food Fair organization has made during the past score of years. Their soundness having been so concretely proved, these same basic tenets will continue to be applied in meeting the challenges and in grasping the opportunities which lie ahead.

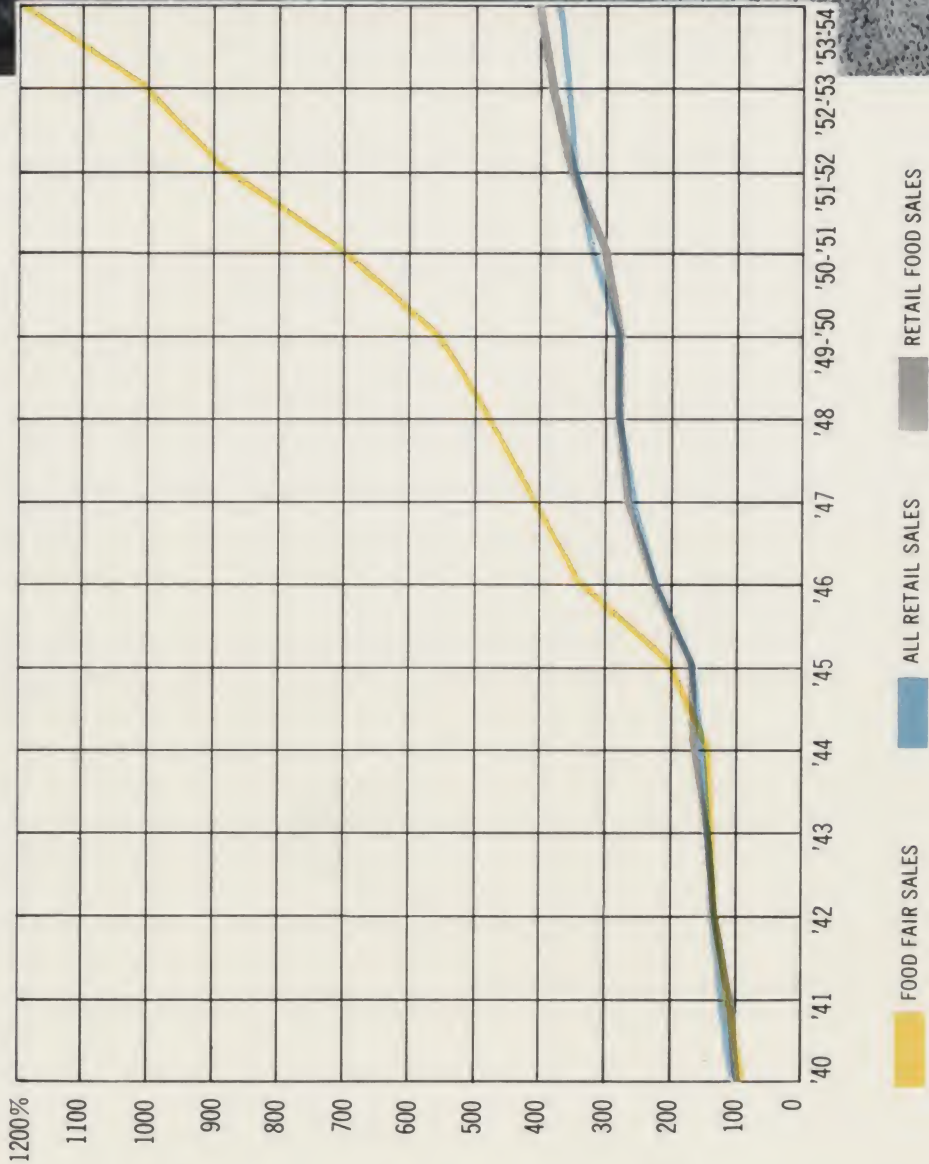
Sincerely,


Louis Stein
President

July 27, 1954



RATE OF INCREASE





REVIEW OF OPERATIONS

Conditions in Retail Trade

The retail trade as a whole contributed in 1953 to the progress of the country's economy. Retail sales of all kinds were about 4% greater than those for the preceding year, according to statistics compiled by the United States Department of Commerce. A peak of consumption was reached in the third quarter of the year, following which a moderate decline was witnessed. Prices, on the average, remained relatively stable throughout the year.

Retail food sales showed a gain of 3% during the year 1953. Prices

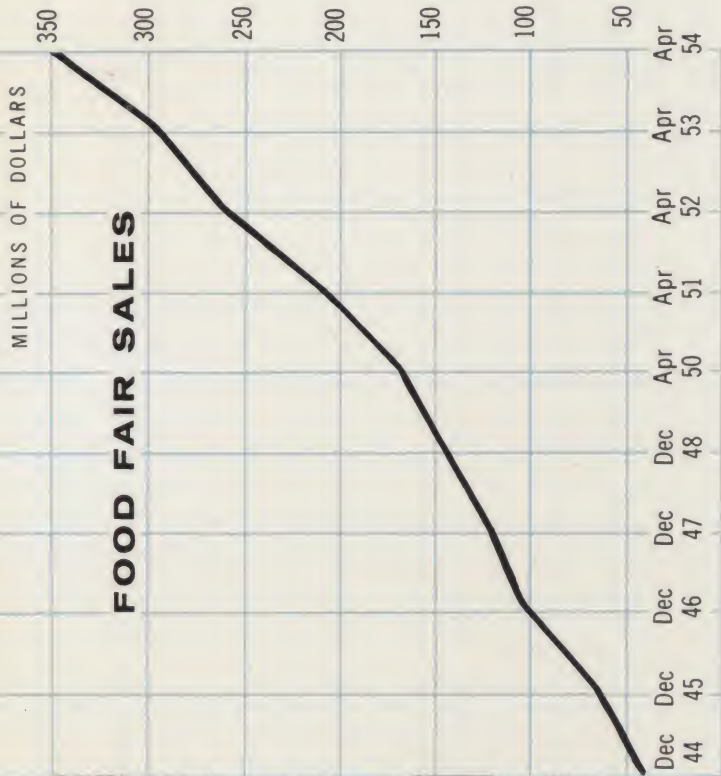
for food generally were lower than in the year before. Physical volume increased more than did dollar volume.

Records of the United States Department of Commerce reveal that the country's total 1953 retail sales were \$171,000,000,000, compared with \$163,983,000,000 in 1952. Retail food sales last year were approximately \$41,000,000,000, as against \$39,776,000,000 in 1952.

Significantly, supermarkets racked up a 9% sales increase. They accounted for 48% of the total volume of food sales.



FOOD FAIR SALES



Sales

The long record of sales growth of Food Fair Stores, Inc., continued unabated during the fiscal year which ended May 1, 1954. Fastest growing of the nation's major retail organizations, the Company in 1953 advanced to fourteenth position among all retail organizations, from sixteenth place the year before. In accomplishing this the Corporation strengthened its position as the seventh largest of the nation's food chains. Its average sales per store for the year ended May 1, 1954, were roughly \$1,800,000, which far exceeds the average volume per store of the country's leading retail food systems.

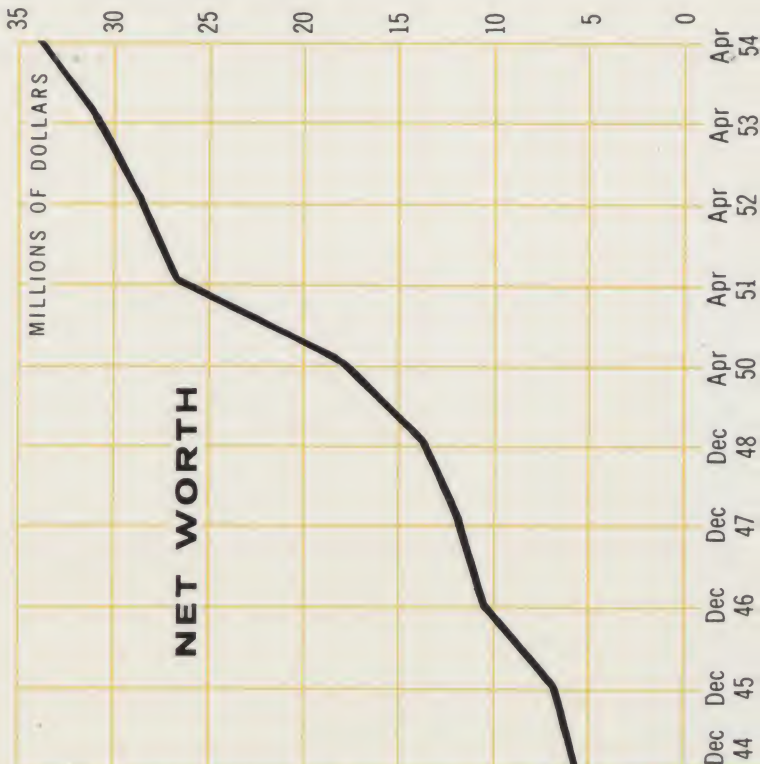
The total volume of Food Fair's business for the fiscal year (53 weeks) ended May 1, 1954, was \$348,215,041. This volume is \$55,555,287, or 19% greater than the previous record high sales of \$292,659,754 achieved in the 52 weeks ended April 25, 1953. This percentage gain in sales was more than six times as great as the rate of sales growth in the retail food industry as a whole. It is significant also that older markets have been contributing importantly to the overall gains in sales.

Earnings

Notwithstanding heavy expenses incurred incident to the addition of many supermarkets, and in spite of the continued rise in wage and other operating costs, earnings of Food Fair Stores, Inc., rose during the fiscal year ended May 1, 1954, to the highest level in the Company's history.

Net earnings after all charges but before state and federal income taxes amounted to \$12,751,907. This is 27% above the previous record high pretax profits of \$10,044,840 earned in the fiscal year ended April 25, 1953.

After provision for all charges and taxes, net income



NET WORTH

FOOD FAIR



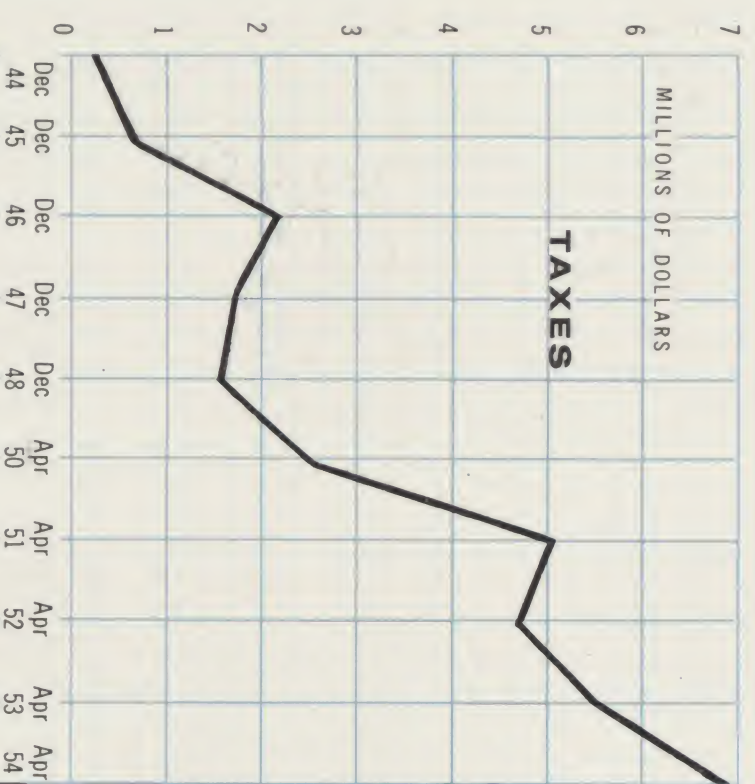
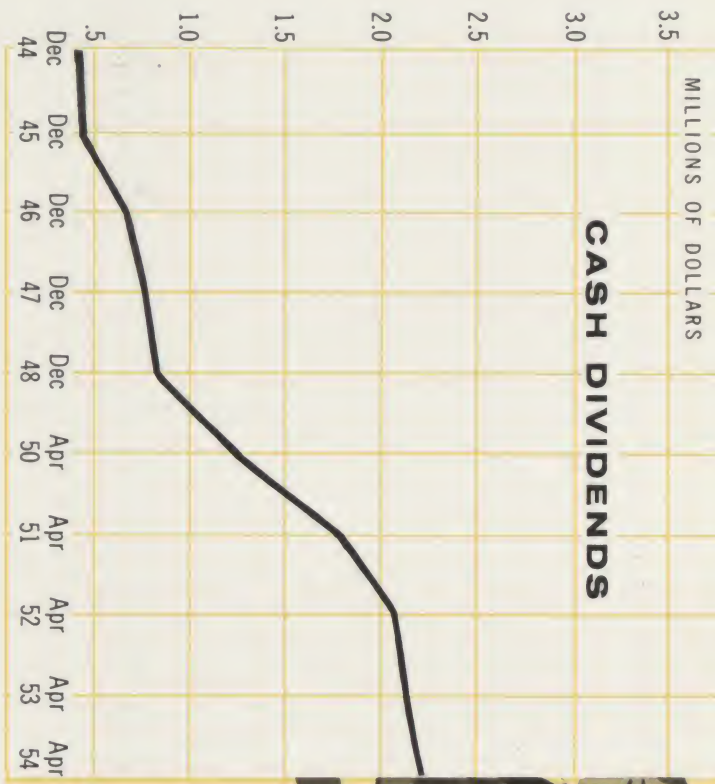
for the latest fiscal year was \$5,801,106. This amount, by far the largest ever, is equal after providing for preferred dividend requirements to \$2.31 per share on the 2,377,829 shares of common stock outstanding at the close of the year. It is 28% greater than the \$4,535,918, or \$1.77 per share earned on the same share basis in the preceding fiscal year.

Net income per dollar of sales increased last year to 1.67 cents, from 1.55 cents in the year before. This improvement stemmed from greater efficiency achieved as a result of the Company's continued research into the science of distribution.

Dividends

All regular dividends were paid on Food Fair's \$4.20 cumulative preferred and common stocks during the latest fiscal year. The regular dividend of \$1.05 per share was paid on the \$4.20 cumulative preferred stock on July 1 and October 1, 1953, and on January 2 and April 1, 1954. The regular dividend of twenty cents per share was paid on the common stock on July 1 and September 15, 1953, and on January 2 and March 15, 1954. Cash dividend payments totaled \$2,183,051 in the fiscal year, a record high. In addition to the regular dividends, a stock dividend of 5% was paid on August 27, 1953. The balance of net income after dividend payments amounted to \$3,618,055, which was retained for further expansion of the business.

On May 18, 1954, the Board of Directors voted to distribute on August 25, 1954, to holders of the common stock, an additional share of stock for each four shares held as of July 16, 1954. In addition, regular quarterly cash dividends were declared on the preferred and common stocks. The preferred and common stock dividends were made payable on July 1, 1954.



WHERE THE FOOD FAIR SALES DOLLAR GOES



Merchandise.....	82.40
Wages, Rents, etc.	13.93
Taxes.....	2.00
Retained in Business.....	1.04
Dividends Paid to Stockholders.....	.63
	<u>100.00</u>

In voting to distribute an additional share of common stock for each four shares held, Directors were motivated by a desire to furnish shareholders additional participation in the earnings of the Company without sacrificing liquid capital required for continued growth of the business.

It is interesting to note that upon distribution of this additional stock, the shareholder who had purchased one share of the Company's common stock in its first public marketing in 1937 would have seven shares with a market value far in excess of original cost. This increment in value may be accepted as a measure of the soundness of the Company's general operating and expansion policies.

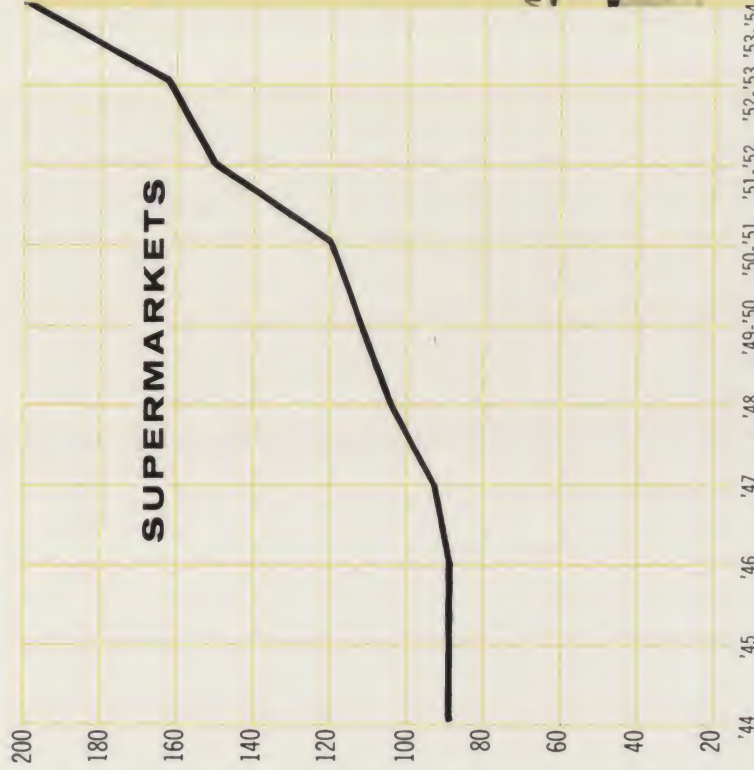
Operating Costs

In common with the nation's business enterprises as a whole, Food Fair last year was forced to contend with a rising trend of operating costs. Wage rates continued upward, and costs of goods and services necessary to conduct the business increased appreciably.

The battle to control operating expenses is endless, requiring constant supervision of such factors as wastage, ordering, receiving, handling, inventory, damage control, quality, routing, and personnel utilization. Operating costs tend to increase by dollars while savings are made in cents.

Nevertheless, the struggle for increased efficiency to offset continued rising expenses has been fruitful. Further progress has been made in increasing productivity per manhour and in additional streamlining of warehouse operations which are among the most efficient in the nation.

A corollary of Food Fair's growth is the fact that



each year it is necessary to absorb heavy initial expenses incident to the opening of new supermarkets. Moreover, until they are well established in their respective territories, new stores generally have high operating expenses relative to sales. Consequently, the benefits of expansion in a given year are not fully reflected in earnings for that year.

Foundation

The sum of \$490,500 was allocated from the Company's earnings of last year to The Food Fair Stores Foundation, a charitable institution incorporated in June, 1952. The purpose of the Foundation is to supply financial assistance to deserving causes, with special emphasis on the support of educational and charitable organizations. The Company plans to contribute each year an amount not in excess of that allowable as a deductible expense under provisions of the Internal Revenue Code.

In the latest fiscal year, The Food Fair Stores Foundation established a professorship in marketing in the University of Pennsylvania's Wharton School of Finance and Commerce. Also established were forty-one four-year scholarships at various leading universities in the states served by the Company.

Taxes

The tax bill of Food Fair Stores, Inc., in the latest fiscal year was the largest in our history. Federal and State taxes on earnings aggregated \$6,950,801. This is equal to \$2.92 per share of common stock outstanding at the close of the year. The tax burden exceeded last year's net income by 20%. It exceeded the preceding year's tax load by 26%.

Excess profits taxes provided for during the year

amounted to \$431,098. The Excess Profits Tax Law expired as of January 1, 1954, thus freeing the earnings of one-third of the Company's fiscal year from this added burden.

Working Capital

Current assets of Food Fair Stores, Inc., as of May 1, 1954, amounted to \$39,651,946, against current liabilities of \$14,438,039. The ratio of current assets to current liabilities on that date was 2.7 to 1. Working capital (current assets minus current liabilities) amounted to \$25,213,907.

Current assets of the Company included \$15,967,435 in cash, against \$15,863,793 at the close of the previous fiscal year. Inventories, computed at the lower of cost or market value, totaled \$21,547,247 on May 1, 1954, compared with \$15,379,868 a year earlier.

Capitalization

Food Fair Stores, Inc., capital stock outstanding on May 1, 1954, comprised 71,195 shares of \$4.20 cumulative preferred stock and 2,377,829 shares of common. The number of shares of common stock outstanding during the year was increased by 113,155 as a result of the 5% stock dividend paid August 27, 1953. Sinking fund operations effected the retirement during the year of 3,990 shares of \$4.20 cumulative preferred stock.

Funded and bank indebtedness of the Company, less that portion due within one year, amounted to \$23,650,000 at the fiscal year-end. In addition, there were outstanding \$6,513,626 of mortgages on properties owned by the Company.



Since the close of the fiscal year, your Company has received from several large insurance companies commitments covering the purchase and lease-back by them of a number of its supermarket and warehouse properties. The sale of these properties will release for general use funds invested in real estate.

Your management has also been engaged recently in negotiations for refinancing at a lower interest rate a substantial portion of the Company's present long term indebtedness, especially the \$12,500,000 of 4% debentures due February 1, 1973. These steps are designed to place the Company in the strongest possible financial condition in order to afford latitude for taking advantage of such expansion opportunities as may arise.

Expansion

The unprecedented growth of Food Fair Stores, Inc., continued without letup through the latest fiscal year, and the pace of expansion has since been unabated. Eighteen Food Fair supermarkets were opened last year, and a chain comprising nineteen modern supermarkets was acquired. Three older Food Fair units were closed, the net increase in store units for the year being 34. These increased to 196 the total number of Food Fair markets in operation by the close of the fiscal year.

In December, the Company acquired the nineteen supermarkets operated by Carls Markets in the Miami area of Florida. The new units are very similar in size and operation to the twenty-six units heretofore operated in Florida by Food Fair. In addition to the nineteen operating supermarkets in the Carls chain, Food Fair acquired two partially completed units of the chain. These two have now been placed in operation. It is significant that Food Fair opened its first Florida supermarket only six years ago—in June, 1948.



Samuel Friedland
Chairman of the Board



Louis Stein
President



Arthur Rosenberg
Vice President



Three new vice presidents of the Company are, from left to right, Arnold D. Cohen, David T. Friedland and Jack M. Friedland.



George Friedland
Vice Chairman of the Board



Myer B. Marcus
Executive Vice President



Myer M. Gordon
Treasurer

Another significant development in Food Fair's expansion in the latest fiscal year was the dedication in northeast Philadelphia on February 17, 1954, of a new, \$5,000,000 shopping center, sponsored jointly with a Philadelphia department store organization. The main buildings of the shopping center are a Food Fair supermarket, one of the largest and most modern yet built, and a branch department store. The project is one of the first of its type to be owned jointly by a retail food organization and a department store.

Units opened since the close of the fiscal year include those in Point Pleasant and Hamilton Township, N. J., Reading, Pa. and in Miami, Florida. In addition, warehousing and trucking facilities in all areas of operation are being expanded to service the growing chain. Current plans contemplate the construction and opening of twenty-one additional Food Fair supermarkets by the close of April, 1955, with corollary services expanding correspondingly.

Executive Changes

On August 25, 1953, the Board of Directors of Food Fair Stores, Inc., elected Louis Stein to the office of President. Mr. Stein succeeded George Friedland, who had urged that he be relieved of the responsibilities of the presidency and who recommended that younger men be given the opportunity to participate in carrying forward the progressive policies of the Company. Mr. Friedland, President since 1941, was elected Vice Chairman of the Board of Directors.

Mr. Stein has been associated with the Company for the past quarter century. General Counsel since 1929, Director since 1937 and Vice President since 1940, he was appointed Assistant to the President in December, 1952.

On August 25, 1953, also, Messrs. David T. Friedland, Jack M. Friedland and Arnold D. Cohen were elected Vice Presidents. David T. Friedland has been associated with the Company for the past twenty years, and since 1943 he has been Assistant Director of Store Operations under Myer B. Marcus, Executive Vice President. Jack M. Friedland, son of Samuel Friedland and a Director of the Company, has for the past seven years been Director of Store Planning. Arnold D. Cohen has been associated with the Company for the past eight years. Since 1948, he has been Director of Warehouse and Transportation Operations.

The Board of Directors on August 25, 1953, also elected the six senior officers of the Company as members of the executive committee. They are: Samuel Friedland, George Friedland, Louis Stein, Myer B. Marcus, Arthur Rosenberg and Myer M. Gordon.

Employees

In the keenly competitive business of operating retail food supermarkets, the character and attitude of employees are of critical importance. The good will created by courteous and considerate service is one of Food Fair's most important assets.

Recognizing that the courtesy and consideration extended to patrons by members of the Food Fair team is in large part dependent upon the attitude of these co-workers toward the Corporation, the management constantly has striven to enlarge its area of responsibility toward employees and thereby enlist the active support of members of the Food Fair team.

One of the most important areas of responsibility is employee security, a vital factor in morale and productivity. Food Fair provides employee security in material benefits and in the fact that, as a growing corporation, new jobs and job advancement opportunities are constantly afforded. Workers in the ranks

continually are moving up to executive positions as new supermarkets require more store managers, department managers, supervisors and other executive personnel.

The Company's training program for college men, instituted in 1952 with the objective of preparing them for positions as administrative assistants, is nearing completion of its initial two-year period. From present indications, the program will prove of significant value in the overall administrative training program.

On the list of incentives to which Food Fair believes its employees are entitled, is an "Award of the Year" program. Under this program, 144 employees (as compared with 49 in the preceding year) in various phases of the Company's business on May 16, 1954 received awards ranging from one week's to one month's salary. On one of these winners was bestowed the "Employee of the Year" award, which carries with it a full year's salary.

Another series of incentive awards, long established by the Company, was continued last year. Food Fair's Courtesy Campaign entered its seventh year, and cash prizes were awarded for the top supermarkets in the Company's fifteen districts. Last March, twenty-six truck drivers were awarded United States Saving Bonds for completing from one to four years of accident-free driving. Plans for the current fiscal year envisage the award of a one-week's vacation or its equivalent for two persons, for five consecutive years of accident-free driving.

In addition to paid vacations and holidays, the Company provides various recreational opportunities, including picnics and organized athletic activities.

B. F. Lieber, left, Secretary, presents 10-year Service Emblem to A. G. Roth, personnel and payroll administrator.



Training school for store personnel in Newark, N.J. covers all phases of store operations. Here, front end trainees learn how to change cash register tapes.



The employe publication, Food Fair Star, is forwarded to the 12,000 employes of the Company ten times per year.

During the year, a 25-Year Club was established for employes who have been with the Food Fair organization for that period or longer. Charter members named were Samuel Friedland, Chairman of the Board of Directors; George Friedland, Vice-Chairman of the Board of Directors; Louis Stein, President; and Myer B. Marcus, Executive Vice-President.

Food Fair Stores, Inc., has 2,941 employes with at least five years of service, including 38 with 20 years or more, 221 with 15 years, 493 with 10 years, and 2,189 with five years service.

Annual Meeting

The annual meeting of shareholders of Food Fair Stores, Inc. will be held on Tuesday, August 24, 1954, at 11 A.M. Eastern Daylight Saving Time, at the Corporation's offices, 2223 East Allegheny Avenue, Philadelphia, Pennsylvania. A notice of the meeting is enclosed herewith, together with a proxy form and accompanying explanatory material.

It is to be hoped that all shareholders of the Company who can conveniently do so will attend the meeting in person and discuss the Company's affairs with officers and directors. It is to be hoped also that those shareholders who cannot conveniently attend the annual meeting in person will promptly date, sign and return the proxy.

For the benefit of those who cannot attend in person, a summary of the proceedings of the annual meeting will be provided.

"Employee of the Year," Harry O. Cohen, receives congratulations from George Friedland, left, vice chairman of the board, and Louis Stein, president.

Staff members of Star, employe publication, discuss plans for future issue with J. S. Schwartz, editor.





CERTIFIED FINANCIAL STATEMENTS

FOOD FAIR STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

	<i>For the Year Ended</i>	
	<i>(53 Weeks) May 1, 1954</i>	<i>(52 Weeks) April 25, 1953</i>
Sales	\$348,215,041	\$292,659,754
Cost of sales	286,950,969	243,045,488
Gross profit from sales	\$ 61,264,072	\$ 49,614,266
Operating expenses	48,098,526	39,253,179
Profit from operations	\$ 13,165,546	\$ 10,361,087
Other income	696,015	369,572
Profit before interest expense	\$ 13,861,561	\$ 10,730,659
Interest expense	1,109,654	685,819
Net income before Federal and State taxes on income	\$ 12,751,907	\$ 10,044,840
Federal and State taxes on income:		
Federal income tax	\$ 6,256,198	\$ 5,004,086
Federal excess profits tax	431,098	293,088
State income taxes	263,505	211,748
Total Federal and State taxes on income	<u>\$ 6,950,801</u>	<u>\$ 5,508,922</u>
Net income	<u>\$ 5,801,106</u>	<u>\$ 4,535,918</u>

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

	May 1, 1954	April 25, 1953
CURRENT ASSETS		
Cash.....	\$15,967,435	\$15,863,793
United States Treasury Certificates.....	—	5,021,267
Accounts receivable.....	1,501,591	792,371
Inventories of merchandise and supplies, at lower of cost or market.....	21,547,247	15,379,868
Federal excess profits tax refunds receivable.....	—	101,321
Prepaid insurance, rent and taxes.....	635,673	359,580
	<u>\$39,651,946</u>	<u>\$37,518,200</u>
LESS: CURRENT LIABILITIES		
Notes payable.....	\$ 600,000	—
Accounts payable.....	5,133,330	\$ 5,550,431
Accrued salaries and expenses.....	3,915,122	2,888,188
Debtore sinking fund installments payable (Note 1).....	142,000	184,000
Federal and State income taxes payable, less United States Treasury Notes—1954, \$2,313,318; 1953, \$2,003,200.....	4,647,587	3,603,735
	<u>\$14,438,039</u>	<u>\$12,226,354</u>
	\$25,213,907	\$25,291,846
WORKING CAPITAL		
Investments, at cost.....	667,752	689,074
Land, at cost.....	6,772,251	5,480,153
Buildings and improvements, at cost, less allowance for depreciation—1954, \$4,153,130; 1953, \$3,248,186.....	18,177,229	14,341,454
Fixtures and equipment, at cost, less allowance for depreciation—1954, \$5,972,253; 1953, \$4,507,996.....	12,250,333	8,926,649
Miscellaneous other assets.....	1,206,736	1,038,296
	<u>\$64,288,208</u>	<u>\$55,767,472</u>
DEDUCT		
Notes payable—due after one year.....	\$ 3,900,000	—
Mortgages payable, due after one year.....	6,513,626	\$ 5,036,304
Fifteen year sinking fund debentures, 3% due January 1, 1965 (Note 1).....	7,250,000	7,550,000
Twenty year sinking fund debentures, 4% due February 1, 1973 (Note 2).....	12,500,000	12,500,000
Amounts received on subscriptions to shares of common stock pursuant to Employees' Stock Purchase Plan—1954, 64,653 shares; 1953, 71,065 shares.....	271,080	68,490
	<u>\$30,434,706</u>	<u>\$25,154,794</u>
NET ASSETS	\$33,853,502	\$30,612,678
DERIVED FROM		
Capital Stock:		
Preferred (Note 4).....	\$ 7,119,500	\$ 7,518,500
Common (Note 5).....	2,377,829	2,264,674
Surplus:		
Capital surplus.....	11,728,814	9,104,495
Earned surplus (Note 3).....	12,627,359	11,725,009
	<u>\$33,853,502</u>	<u>\$30,612,678</u>



FOOD FAIR STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Surplus For the Year (53 Weeks) Ended May 1, 1954

ADDITIONS		
CAPITAL SURPLUS—April 25, 1953.....		\$ 9,104,495
Excess over par value of 113,154 40/100 shares of common stock issued as a stock dividend August 27, 1953.....	\$2,602,551	
Excess of stated value of 3,990 shares of cumulative preferred stock redeemed over cost thereof.....	21,768	2,624,319
		<u>\$11,728,814</u>

**CAPITAL SURPLUS
MAY 1, 1954**

EARNED SURPLUS

ADDITION		
EARNED SURPLUS—April 25, 1953.....		\$11,725,009
Net income for the year (53 weeks) ended May 1, 1954.....		5,801,106
Total.....		<u>\$17,526,115</u>

DEDUCTIONS

DEDUCTIONS		
Dividends Paid:		
In stock:		
113,154 40/100 shares of common stock.....	\$2,715,705	
In cash:		
Preferred stock, \$4.20 per share.....	\$ 305,329	
Common stock, \$.80 per share.....	<u>1,877,722</u>	2,183,051
		<u>\$4,898,756</u>
		<u>\$12,627,359</u>

**EARNED SURPLUS
MAY 1, 1954**

NOTES TO FINANCIAL STATEMENTS

MAY 1, 1954

The following notes are applicable to the Financial Statements as at May 1, 1954. Reference is made to previously issued reports for the notes applicable to the statements as at April 25, 1953.

NOTE 1—These debentures are subject to repayment through sinking fund operations on each interest payment date in the following principal amounts: to and including July 1, 1956, \$150,000; thereafter, to and including July 1, 1960, \$225,000; thereafter, to and including July 1, 1964, \$300,000.

NOTE 2—These debentures are subject to repayment through sinking fund operations beginning February 1, 1957, and on each interest payment date thereafter in the following principal amounts: to and including August 1, 1961, \$200,000; thereafter, to and including August 1, 1967, \$250,000; thereafter, to and including August 1, 1972, \$300,000.

NOTE 3—The indentures covering the issuance of the debentures described in Notes 1 and 2 above contain restrictions as to the payment of cash dividends and the redemption of shares of stock of the Corporation. The maximum amount of earned surplus so restricted at May 1, 1954 was \$10,036,172.

NOTE 4—Preferred Stock is \$4.20 cumulative, \$15 par value; 142,615 shares are authorized, of which 77,615 shares were issued and 71,195 are outstanding. The Corporation is obligated to set aside \$120,000 semi-annually as a sinking fund for the redemption of the preferred stock which may be called for this purpose at \$100 per share, plus accrued dividends. In addition the Corporation may, at its option, call for redemption of all or any part of the preferred stock at a maximum price of \$103 per share plus accrued dividends. Holders of this stock are entitled to preference of \$100 per share in involuntary liquidation.

Under the terms of the issuance of the preferred stock, earned surplus of \$1,084,842 is restricted at May 1, 1954, as to the payment of cash dividends on common stock.

NOTE 5—Common Stock is \$1 par value; 5,000,000 shares are authorized, of which 2,377,828 88/100 shares (including scrip certificates) are issued and outstanding.

At May 1, 1954, 64,653 shares of common stock were reserved for issuance pursuant to Employees' Stock Purchase Plan.

On May 18, 1954, the Board of Directors declared a 25% common stock distribution payable on August 25, 1954, to stockholders of record on July 16, 1954. Pursuant thereto, there have been reserved for issuance 594,457 shares (including scrip certificates) of common stock. For each share so issued, there will be transferred from earned surplus to capital stock common, the sum of \$1. Further, an additional 16,163 25/100 shares (including scrip certificates) of common stock have been reserved for issuance pursuant to Employees' Stock Purchase Plan.

NOTE 6—Costs and expenses include depreciation and amortization of \$2,637,905 and \$2,001,445 for the years ended in 1954 and 1953 respectively.

NOTE 7—On December 5, 1953, certain stores and other assets were acquired and certain liabilities were assumed through the purchase of all of the outstanding capital stock of several corporations for a consideration of approximately \$3,000,000.

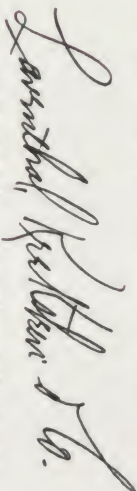
NEW YORK
PHILADELPHIA
HARRISBURG
WILKES-BARRE
LEWISTOWN

LAVENTHOL, KREKSTEIN & CO.
Certified Public Accountants
1528 WALNUT STREET
PHILADELPHIA 2

Officers and Directors
Food Fair Stores, Inc.

We have examined the consolidated statement of financial condition of Food Fair Stores, Inc. and its wholly-owned subsidiary companies at May 1, 1954, and the consolidated statements of earnings and surplus for the year (53 weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records, and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated statement of financial condition, and related consolidated statements of earnings and surplus present fairly the consolidated position of the companies at May 1, 1954, and the consolidated results of their operations for the year (53 weeks) then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



LAVENTHOL, KREKSTEIN & CO.

Philadelphia, Pa.
June 30, 1954



FOOD FAIR STORES, INC. AND SUBSIDIARY COMPANIES

TEN-YEAR

YEAR ENDED	NUMBER OF STORES AT END OF YEAR	SALES (000 OMITTED)	NET INCOME BEFORE TAXES ON INCOME	FEDERAL AND STATE INCOME TAXES	NET INCOME
*MAY 1, 1954	196	\$348,215	\$12,751,907	\$6,950,801	\$5,801,106
APRIL 25, 1953	162	292,660	10,044,840	5,508,922	4,535,918
APRIL 26, 1952	151	259,591	8,688,705	4,803,425	3,885,280
APRIL 28, 1951	123	205,643	9,817,112	5,107,223	4,709,889
APRIL 29, 1950	113	164,626	6,552,021	2,529,243	4,022,778
APRIL 30, 1949	108	50,308	1,694,192	656,039	1,038,153
*DECEMBER 31, 1948	105	142,036	4,459,220	1,673,927	2,785,293
DECEMBER 27, 1947	95	121,765	4,719,905	1,832,848	2,887,057
DECEMBER 28, 1946	89	101,198	6,054,653	2,239,503	3,815,150
DECEMBER 29, 1945	89	60,565	1,662,683	737,173	925,510
DECEMBER 30, 1944	89	44,832	1,019,649	394,956	624,693

Interim
17-Week Period

*53 WEEKS

STATISTICAL SUMMARY

CASH DIVIDENDS	EARNINGS RETAINED	CURRENT ASSETS	CURRENT LIABILITIES	WORKING CAPITAL	TOTAL ASSETS	NET WORTH
\$2,183,051	\$3,618,055	\$39,651,946	\$14,438,039	\$25,213,907	\$78,726,247	\$33,853,502
2,117,781	2,418,137	37,518,200	12,226,354	25,291,846	67,993,826	30,612,678
2,076,823	1,808,457	27,002,320	12,725,919	14,276,401	53,376,631	28,408,965
1,779,490	2,930,399	24,560,940	7,350,676	17,210,264	43,889,595	26,701,983
1,214,214	2,808,564	19,376,166	4,310,351	15,065,815	31,394,570	17,756,622
210,733	827,420	14,998,514	5,449,541	9,548,973	24,936,947	14,701,205
807,233	1,978,060	15,588,968	5,017,396	10,571,572	24,240,303	13,879,221
770,181	2,116,876	16,714,955	4,143,192	12,571,763	24,552,310	11,972,228
666,309	3,148,841	13,372,303	5,281,634	8,090,669	18,563,068	10,106,847
458,379	467,131	9,478,223	2,421,252	7,056,971	12,418,127	6,661,509
457,984	166,709	7,476,129	1,744,982	5,731,147	10,784,600	5,570,117

SUPERMARKET OPERATION

Food Fair Stores, Inc. in the fiscal year ended May 1, 1954, successfully challenged heightened competitive activity and further increase in cost of operations. This accomplishment resulted from continued innovation and development, together with increased emphasis on the fundamentals of superior supermarket operation.

To maintain Food Fair Stores in the vanguard of supermarket operation in all its phases, administrative and communications channels must constantly be reviewed and modified in the light of the growing organization's changing needs.

Accelerated training of managers and key store personnel has kept pace with Food Fair's requirements for new store staffing. The store executive training program established in 1952 to prepare college trained men for food store management continues to justify the high hopes originally held for this experiment. Managers are being developed from the ranks, also, thus keeping open the door of job opportunity to all present personnel.

In April 1954, 102 key executives, representing every segment of Food Fair's operations, participated in a two-day Annual Review and Preview Conference in Philadelphia. Joining top management and the Policy Committee for a review of the previous year's activities and a preview of plans for the years ahead, these men participated in a series of panel discussions and presentations relating to major phases of Food Fair operations.

Considerable stress on the importance of individual initiative and acceptance of responsibility at all levels in the field organization continues to be reflected in an alert, tightly knit, smoothly operating organization. Food Fair's oft-repeated statement, "There's always something doing at Food Fair," stems largely from the merchandising enthusiasm and ingenuity of personnel, from the store level up through the supervisory and management echelons.

Merchandising innovations of the past year included the inauguration of a new "Customer Service," the provision of high quality, non-food items at very low prices. The program was successfully launched in the Philadelphia area, with the introduction of the Company's private brand of nylon stockings prepackaged under the name "Rose Fair." This item and various similar promotions that followed have met with encouraging customer acceptance.



New "Customer Service" at Food Fair are nylon stockings sold under Company's trade name, "Rose Fair."



Giant store directory is innovation to make homemakers' shopping more convenient.



Tremendous variety in modern supermarket is highlighted in grocery department which features more than 3,000 items.



Reviewing plans and blueprints for a new Food Fair Store are Louis Kasoff, right, chief architect and Louis Bilano, associate staff architect.



Store control and research department is important analytical arm of Company. Benjamin Felsten, left, discusses marketing area problem with Frank James.

View of modern Food Fair supermarket in Philadelphia shopping center.



Many of the new Food Fair markets recently added and now planned for early opening are located in shopping centers. These centers are a dynamic new factor in retail distribution. This development springs from the rapid growth of suburban residential areas. In such centers Food Fair usually occupies a prime position, enjoying as neighbors the highest type of retailers in other fields who help make the location an attractive trading point for the community. Extensive parking facilities are an important feature of all new Food Fair markets and an integral part of each shopping center.

Store planning and analysis, mechanization, improved materials handling, and related aspects of the problem of most efficient operation at the lowest possible cost continue to occupy the attention of staff and operating specialists. This activity, combined with the unrelenting expense control efforts of field supervisory personnel, has been instrumental in absorbing rising costs of operation.

Research

Strengthened by the addition of several specialists, the Food Fair Stores Store Control and Research Department intensified its fact-finding and analytical service to management and to the various operating departments during the past fiscal year.

In addition to its regular program of analysis and control reports dealing with every phase of store operations from sales through each item of controllable expense, the research unit carries out many specialized studies on specific operating problems.

From this research staff, for example, sales promotion and advertising department obtains preliminary cost estimates, sales, volume projections, and final evaluations on major promotional prospects. Detailed sales analyses are regularly prepared for use in merchandising and sales planning.

The Real Estate Department, responsible for obtaining new locations, receives from Research detailed studies on each prospective site. Locations research techniques have been refined and developed to the point where this activity is a basic management tool.

Forms control, paperwork simplification and similar procedures and methods studies which are receiving greater emphasis offer opportunities for additional economies.

In these and other ways, research and analysis activities basic to efficient, large-scale retailing have kept pace with Food Fair's rapid growth.

THE COMMUNITY

There is perhaps no more important responsibility of modern industry than good community relations. This is particularly true of the retail industry. In the case of Food Fair Stores, Inc., the area of need for community relations extends to the locales of its 200 supermarkets and to sections where warehouses and other service facilities are situated. Food Fair's community responsibility extends also to its suppliers, to the farmer and to others in the economy whose problems must be shared.

For the Company to prosper, the Food Fair name must be established as a synonym for good neighbor. Toward that end, Food Fair's policy has dictated that supermarkets and service facilities should shoulder part of the load of community problems, concern themselves with civic duties, and help promote the general welfare. Most of all, Food Fair has dedicated itself to service, both as an institution and as a friend.

As part of this service, key personnel and others in the Food Fair family are encouraged to participate individually in community affairs and functions. Of the 383 replies received in a recent survey of personal activities of supervisory personnel, it was found that 276 Food Fair employees in key positions held more than 800 memberships in chambers of commerce, in service clubs such as the Rotary and Lions, and in

Food Fair sponsors little league baseball teams in a number of areas as part of its community relations program.



High school students learn the workings of a supermarket during one of many such visits the Company encourages.



parent-teacher associations, scouting, 4-H clubs and similar organizations.

The survey disclosed also that more than 72% of Food Fair's store managers belong to at least one organization the functions of which benefit Food Fair directly, as well as indirectly through service to the community.

Participation in civic activities by the men and women of Food Fair demonstrates convincingly sincere community interest. Through personal cooperation with civic leaders, the Food Fair story of a business built upon service assumes added significance.

A partial list of activities of some of the Food Fair family in their various communities includes work with youth groups, the conducting of tours through stores, offices and warehouses for civic and educational groups, addresses before school groups, women's clubs and trade organizations, and cooperation with local newspapers, radio stations, and other information media.

It is important that Food Fair Stores, Inc. be known not as an inanimate corporate entity, but as a personal friend, one which may be looked to for help, in good times and bad. The Company's reward for its civic service, apart from the personal satisfaction gained, is the goodwill of the communities served. Goodwill, although not included on Food Fair's balance sheet, is the Corporation's most priceless asset.



Typical of the modern Food Fair supermarkets which are members of 100 different communities is this unit in Philadelphia.

FOUNDATION

More and more, industry must assume an active interest in public education which provides the environment in which American youth is trained for his individual share of responsibility in our Democracy. Much of our industrial progress has stemmed from advancement in science, and the basis of this progress is technical training of which American industry is an important beneficiary.

The responsibilities of Food Fair Stores, Inc. to the communities it serves extend beyond the various civic duties assumed by the Corporation and its personnel. To facilitate the fulfillment of these responsibilities, The Food Fair Stores Foundation was established in 1952. The primary purpose of the Foundation is to provide financial assistance to needy and deserving persons for their support, maintenance, education and welfare, and to make contributions to charitable organizations.

One of the most important steps taken by the Foundation last year was the establishment of a chair in marketing under the professorship of Dr. Reavis Cox at the University of Pennsylvania's Wharton School of Finance and Commerce. In so doing, Food Fair recognized the responsibility of industry to institutions of higher learning which teach young people to deal intelligently with the problems of everyday living, including those of business. Upon these institutions industry must depend to a growing extent for capable, well trained men and women. It may confidently be hoped that the greater educational opportunities offered to serious students will one day bring more efficient, more economical and more intelligent service to the food-buying public.

In a further move to augment educational opportunities for deserving young men and women,

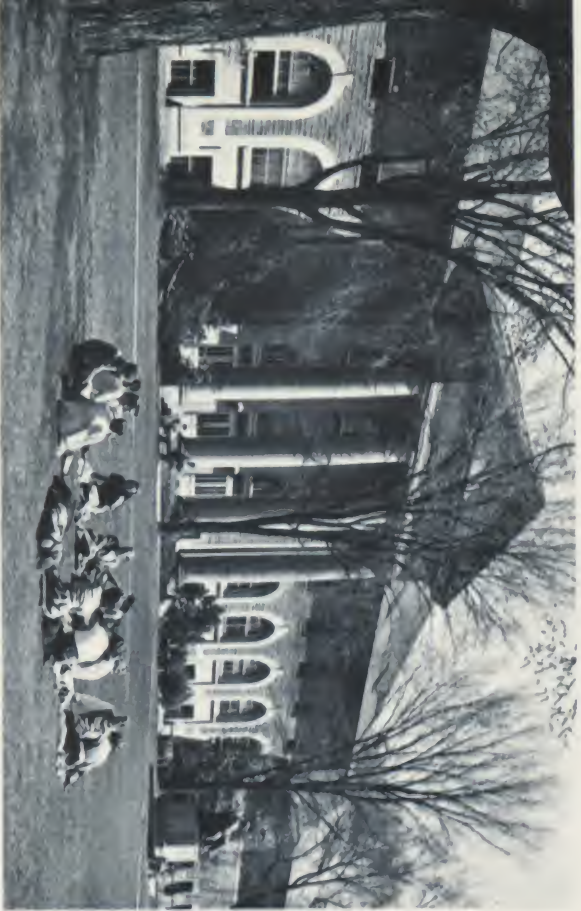
Announcement of chair in marketing established by the Foundation at the University of Pennsylvania is discussed by Samuel Friedland, chairman of the board and Dr. Kurt Peiser, Foundation executive, director, with Gaylord P. Harnwell, University president.

Dr. Milton S. Eisenhower, president of Pennsylvania State University, expresses thanks to Food Fair president for scholarships established at the University.





Dr. Reavis Cox, named to the chair of marketing established at the University of Pennsylvania's Wharton School.



Ervin A. Hill, right, recipient of a Penn State Scholarship, is congratulated by J. D. Helmig, Philadelphia personnel manager.



the Food Fair Foundation last year established forty-one, four-year scholarships at leading colleges and universities in the states served by Food Fair. These scholarships are open to employees and their children as well as to others in the various Food Fair communities.

The scholarship grants, effective beginning this fall, are set up under two programs—one for employees and their families, and another for other residents of the communities in which Food Fair markets are operated.

Under the Food Fair employe grant, thirteen scholarships have been established at eight different institutions—Drexel Institute of Technology, Temple University, the University of Pennsylvania, Harvard University, Columbia University, Johns Hopkins University, St. Johns College, and the University of Miami. Twenty-eight scholarships have been established at Cornell University, Pennsylvania State University, Rutgers University, the University of Delaware, the University of Florida and the University of Maryland, for young men and women of the communities served by Food Fair.

The purpose of the scholarship grants is to encourage young people to continue the cultural and professional activities necessary to the growth and betterment of American citizenship. The nation has a vast reserve of young men and women with natural interest and ability for college and intellectual pursuit but who lack the necessary financial resources. The Food Fair Foundation scholarships are expected to assist and encourage these young people to realize their full potentialities by affording them the opportunity to make the most of their talents.



COLUMBIA UNIVERSITY



PENNSYLVANIA STATE UNIVERSITY



UNIVERSITY OF FLORIDA



JOHNS HOPKINS UNIVERSITY



UNIVERSITY OF DELAWARE



CORNELL UNIVERSITY



RUTGERS UNIVERSITY



UNIVERSITY OF MARYLAND



DREXEL INSTITUTE OF TECHNOLOGY



ST. JOHNS COLLEGE OF ANNAPOLIS



UNIVERSITY OF MIAMI



HARVARD UNIVERSITY



TEMPLE UNIVERSITY



UNIVERSITY OF PENNSYLVANIA



FOOD FAIR SUPERMARKETS



PENNSYLVANIA

- ALLENTOWN (4)
- BETHLEHEM (2)
- BRISTOL
- BRYN MAWR
- CAMP HILL
- CARLISLE (3)
- CHESTER (3)
- COATESVILLE
- COLUMBIA
- DOWNTOWN
- DREXEL HILL
- EASTON
- ELKINS PARK
- HARRISBURG (4)

NEW YORK

- ASTORIA
- BAYSIDE
- BETHPAGE
- BROOKLYN
- EAST MEADOW
- FAR ROCKAWAY
- FLUSHING
- FOREST HILLS
- FRANKLIN SQUARE

NEW JERSEY

- ATLANTIC CITY (2)
- BELLEVILLE
- BRIDGETON
- CAMDEN
- CLIFTON (2)
- COLLINGSWOOD
- EAST ORANGE
- ELIZABETH (4)
- ENGLEWOOD
- EWING TOWNSHIP
- FAIR LAWN
- FORT LEE
- HALEDON
- HAMILTON TOWNSHIP
- HIGHLAND PARK
- IRVINGTON (2)
- JERSEY CITY (3)

MARYLAND

- BALTIMORE (16)
- BALTIMORE COUNTY
- CATONSVILLE
- COLLEGE PARK

DELAWARE

- CLAYMONT
- WILMINGTON (2)

FLORIDA

- CORAL GABLES (3)
- DANIA
- FORT LAUDERDALE (5)
- HIALEAH (4)
- HOLLYWOOD (2)
- HOMESTEAD
- LAKE WORTH

- JENKINTOWN
- LANCASTER (3)
- LEBANON
- LEMOYNE
- NORRISTOWN
- PHILADELPHIA (17)
- QUAKERTOWN
- READING (3)
- SHILLINGTON
- SPRINGFIELD TOWNSHIP
- WEST CHESTER
- WEST READING
- YORK (3)

- FREPPORT
- FRESH MEADOWS (2)
- GREAT NECK
- JACKSON HEIGHTS
- LEVITTOWN (2)
- MANHASSET
- NEW HYDE PARK
- NEW YORK (2)
- QUEENS VILLAGE

- LODI
- MONTCLAIR
- MORRISTOWN
- NEW BRUNSWICK
- NEW MILFORD
- NEWARK (4)
- NUTLEY
- PASSAIC (2)
- PERTH AMBOY
- PLAINFIELD
- POINT PLEASANT
- ROSELLE
- TEANECK
- TRENTON (3)
- VINELAND
- WEST NEW YORK

- DUNDALK
- GLEN BURNIE
- MT. RAINIER

- WILMINGTON MANOR

- MIAMI (22)
- MIAMI BEACH (5)
- RIVIERA BEACH
- SURFSIDE
- WEST PALM BEACH
- WILTON MANORS





FOOD FAIR STORES, INC.